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MINISTRY OF COMMERCE AND INDUSTRY

RESOLUTION

TARIFFS

*New Delhi, the 31st May 1953*

**No. 21(1)-TB/52.**—By two Resolutions dated the 29th March 1952 and the 27th May respectively, the Government of India in the Ministry of Commerce and Industry had asked the Tariff Commission to enquire into and recommend suitable measures for the development of the Automobile Industry in India. The services of a technical expert from Germany were made available to the Commission for this enquiry. The Commission submitted its report on the 25th April 1953. The main conclusions and recommendations of the Commission are briefly summarised below:

(1) The chief obstacle in the way of the speedy development of the Automobile Industry is the comparative smallness of the annual demand which has been, during the last four years, less than 20,000 vehicles of all types and categories. It is, therefore, extremely important to take steps to enlarge the volume of demand and for this there is great scope specially in regard to commercial vehicles. There are far fewer vehicles per 100,000 of the population in India than in most other countries of the world, including countries in South East Asia. Both for developing the transport system of the country and for encouraging the Automobile Industry it would be desirable to stimulate the demand for vehicles. For this purpose the Commission has suggested that Government should implement the recommendations of the Motor Vehicles Taxation Enquiry Committee. The Commission has also come to the conclusion that the present high rates of import duty—84½ per cent. on certain components manufactured or expected to be manufactured in the country, 63 per cent. and 31½ per cent. on other components—far from helping the Automobile Industry, have had the effect of raising the price of motor vehicles to the consumer. The Commission has, therefore, recommended that the import duty on all components should be reduced to a flat rate of 40 per cent *ad valorem*.

(2) The Commission has recommended that, simultaneously with steps to increase demand, the existing demand should be concentrated on firms with an approved manufacturing programme. There exist at present twelve firms with a total assembly capacity for over 84,000 vehicles. Of these, only five firms have a manufacturing programme and among them only Hindustan Motors Ltd. have made "comprehensive and substantial progress" towards the manufacture of major components. The Commission has recommended that future demand should be concentrated on these five firms, and the assembly operations of those without manufacturing programme should cease within a period of three years.

(3) In order to concentrate demand on the five firms with a manufacturing programme and to provide for the progressive manufacture of the type of vehicles required by the country, the Commission has suggested a plan of manufacture of various types by different firms and a programme of progressive manufacture of these types. Briefly the plan is as follows:

- (a) Hindustan Motors, Ltd., will manufacture a light car, a big car and a medium truck.
- (b) Premier Automobiles Ltd., will manufacture a big car and a medium truck.
- (c) Automobile Products of India Ltd., will manufacture a light car and a medium truck.
- (d) Standard Motor Products of India Ltd., will manufacture a medium car only.
- (e) Ashok Motors Ltd., will concentrate on a heavy truck and a baby car, if a suitable scheme is put forward by them.

(4) The Commission has also suggested a scheme of progressive manufacture of components during the next five years. It has also suggested the actual scale of manufacture of each model from year to year, and the allocation of foreign exchange in accordance with that scale.

(5) The Commission does not consider that any of the five manufacturers is likely to make jeep-type vehicles. It has recommended that, for the present, the requirements of jeeps, both Civil and Military, should be met by the existing assemblers of jeep-type vehicles.

(6) Regarding diesel vehicles, the Commission has come to the conclusion that, on balance, they are more suitable for heavy transport and that the manufacture of a five-ton diesel vehicle should be encouraged, but that no diesel vehicles of lower tonnage should be allowed to be manufactured.

The Government have, after careful consideration of the report of the Commission, come to the following conclusions:

(1) The Government agree that for the quick development of the Automobile Industry it is essential to encourage the greater use of vehicles by bringing prices down. The Government accept the view that the present high rates of duty have not helped the industry but have, on the other hand, inhibited demand. The Government, therefore, agree with the Commission that the rate of import duty should be lowered. They consider, however, that a flat rate of duty on all components may not be conducive to the manufacture of new components. After careful consideration the Government have come to the conclusion that the best course would be to aim at an average level of approximately 40 per cent. on a complete CKD pack as recommended by the Commission, but to maintain at a somewhat higher level the rates on components within the manufacturing programme. The necessary notifications giving effect to this decision are being published.

(2) The Government agree with the Commission that the present system of taxation of road transport by different authorities at different rates—sometimes very high—has been a powerful factor in reducing the demand for vehicles, particularly for transport vehicles. Any change in this requires discussion with the State Governments. The Government of India propose to examine this question further in consultation with the State Governments in order to evolve a system of taxation which will be conducive to the development of motor transport.

(3) The Government of India accept the conclusion of the Commission that the demand for vehicles in the country should be concentrated on firms with a manufacturing programme. There will, therefore, be no scope for pure assembling work being conducted on an economic scale for any length of time. The Government propose, after consulting the firms concerned, to formulate a programme for them in the light of these developments and to examine what arrangements could be made for finding alternative employment for the labour, and if possible, for the capital equipment, now utilised by the assembling plants. The attention is that within a period of three years these firms would cease their assembly operations and concentrate on the other activities still open to them—not the least important of which is the maintenance and servicing of the vehicles on the road. Indeed Government would take this opportunity to draw the attention of the firms with a manufacturing programme to the importance of providing adequate servicing facilities, in the absence of which Government would find it difficult to continue the help and encouragement which they might otherwise deserve.

(4) Government generally accept the recommendations of the Commission regarding the types of vehicles to be manufactured and the firms which should undertake such manufacture. They consider, however, that the manufacture of baby cars need not necessarily be confined to one of the five approved manufacturers. They will be prepared to consider a programme of manufacture from any of the five firms if such a programme is submitted before September 1953.

(5) In regard to diesel vehicles, the Government doubt whether any firm would find it economical to manufacture five-ton vehicles only. They would, therefore, be prepared to consider on merits any concrete plan of manufacture which would include, beside the five-ton diesel trucks, engines for lighter vehicles and, possibly, a light or medium vehicle of a type not included in the manufacturing programmes of the five units. This would enable the manufacturers of commercial vehicles to utilise Indian-made diesel engines, should their customers so desire.

(6) The Commission has suggested a detailed programme of progressive manufacture for each of the five firms and has recommended allocations of foreign exchange for specified numbers of vehicles for each of the next five years. While agreeing to the idea of such a programme, Government consider that there should be some degree of flexibility, both as regards the pace of progress and as regards the number of vehicles for which components could be imported every year. This is further necessary in order to ensure a fair degree of competition among the manufacturers themselves.

Apart from the major recommendations dealt with in the preceding paragraph, the Commission has made various suggestions on other points such as the need to develop ancillary industries, the establishment of a Development Council for the automobile industry, the importance of greater co-operation between the manufacturing firms, etc. Government are in general agreement with the basic ideas underlying these recommendations and would take necessary action to implement them as far as possible. Government consider it necessary to provide for standing machinery to deal with the problems of this important industry. They have decided to set up an *ad hoc* committee consisting of representatives of the Ministries of Commerce and Industry, Transport, Defence and Finance. The committee will also examine problems of taxation on road transport and other incentives to secure the speedy development of manufacture and the general expansion of road transport services in the country.

S. BHOTHALINGAM Jt Secy

